

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FRANCES BAARD DISTRICT MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the accompanying financial statements of the Frances Baard District Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010, as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Irregular expenditure

7. The completeness of irregular expenditure disclosed at R40 164 (2010: R0) in note 39.3 to the financial statements could not be confirmed, as undisclosed irregular expenditure amounting to R160 808 was detected during the audit process. The undisclosed irregular expenditure related to the irregular procurement of various goods and services due to the non-adherence to Supply Chain Management (SCM) Regulation 13(c), as declarations of interest were not obtained from suppliers for payments between R10 000 and R30 000 from the date the SCM Regulations became effective. The municipality was not able to determine the extent of the error and I could subsequently not perform alternative tests to determine the extent of the misstatement.

Cash flow statement

8. Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities, is required by the SA Standards of GRAP 2, *Cash flow statements*. The accuracy of the cash flow statement for the current and prior year could not be confirmed as it could not be accurately balanced. The municipality was not able to correct these errors.

Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Frances Baard District Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

11. With reference to note 42.2 to the financial statements, the municipality is the permit holder of the landfill site of the Magareng Local Municipality. The site was incorrectly registered in the name of the district municipality. As the permit holder, the district municipality can be held liable for any incidents of non-compliance by the Magareng Local Municipality. The district municipality has implemented steps to ensure that a new permit is issued to Magareng Local Municipality.

Restatement of corresponding figures

12. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2010 have been restated for the provision for bonuses and trade payables as a result of an error discovered during the year ended 30 June 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2011.
13. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of a change in accounting policy identified during the year ended 30 June 2011 for property, plant and equipment, intangible assets, revaluation reserve and accumulated surplus in the financial statements of the municipality at, and for the year ended, 30 June 2011.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

17. There were no material findings on the annual performance report.

Compliance with laws and regulations

Annual financial statements

18. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. The material misstatement of cash and cash equivalents identified by the auditors was subsequently corrected and reclassified to investments, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

19. Awards were made to suppliers that did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM Regulation 13(c).
20. An award for a tender was made to a provider of which the director is in the service of another state institution, in contravention of the requirements of SCM Regulation 44. The provider failed to declare that he is in the service of the state, as required by SCM Regulation 13(c).

Expenditure management

21. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

INTERNAL CONTROL

22. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with laws and regulations included in this report.

Leadership

23. The leadership did not ensure that the SCM policy was fully applied, which resulted in processes not preventing and detecting irregular expenditure and non-compliance.

Financial and performance management

24. Goods and services were not procured in accordance with SCM Regulations due to incorrect interpretations by the SCM unit. Management contends that officials in the unit did not receive sufficient training and guidance on the SCM Regulations from treasury. Deficiencies also existed in the controls of the municipality to detect and prevent awards to suppliers in the service of the state. Material amendments to the financial statements were as a result of misstatements not being detected during the review of the financial statements prior to submission for auditing.

Governance

25. The municipality conducted a risk assessment, but control activities were not implemented in order to manage and determine what specific actions should be taken to mitigate the risks identified. Although the internal audit unit was functional, the scope of the work done for the year did not include procurement processes, which led to misstatements in irregular expenditure and non-compliance in the procurement processes.

Auditor - General

Kimberley

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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